

# The Effect of Market Orientation on innovation Capacity through Entrepreneurial Orientation at Business Start-up Coffee Shop in Indonesia

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## ABSTRACT

This study aims to resolve the research gap on the influence of market orientation on innovation capacity, with entrepreneurial orientation in coffee shop start-up businesses in Indonesia. The approach used in this research is quantitative with a purposive sampling technique with 110 respondents. The data analysis technique used is Partial Least Square (PLS), and the results of this study indicate that market orientation has a significant effect on innovation capacity, market orientation has a significant effect on entrepreneurial orientation, entrepreneurial orientation has a significant effect on innovation capacity, and market orientation has a significant effect on innovation capacity. Innovation capacity through entrepreneurial orientation.

**Keywords:** market orientation, innovation capacity, entrepreneurial orientation, start-up business

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## INTRODUCTION

Innovation capacity is an essential factor in advancing the country's economic growth, which is reached through labor, technology, and capital. Innovation capacity encourages businesspeople to produce products that can provide economic benefits. With the innovation capacity inherent in businesspeople, the resulting products have a higher selling value, thereby creating competitiveness in the business world. In a broader range, if the application of innovation capacity to business people can explain that innovation and creativity have a positive effect on a product's competitiveness, this can give an advantage to

the products produced by business people for business competition in a market environment. They are competing globally (Zhao & Li, 2018).

In its report, the [Global Innovation Index \(2019\)](#) states that Indonesia is ranked 85th in the innovation index. As the largest country in Southeast Asia, seen from its vast territory and population, Indonesia should have an excellent opportunity to increase innovation capacity because it has optimal resources. Table 1.1 describes Indonesia's ranking among other Southeast Asian countries based on data released by the Global Innovation Index (GII) in 2019.

**Table 1.** Indonesia's Rank in GII on 2019

Country	Ranking	Score
Singapura	8	58,37
Malaysia	35	42,68
Vietnam	42	38,84
Thailand	43	38,84
Phillippines	54	36,18
Brunei Darussalam	71	32,35
Indonesia	85	29,72
Cambodia	98	26,59

Resource: Global Innovation Index (2019)

Based on table 1 above, Indonesia is in the last two ranks among other Southeast Asian countries, as seen from other countries' level of innovation capacity. The most important indicators to determine the assessment of

innovation activities by GII are the investment capital of Research & Development (R&D), the number of patents and product brand rights in international circulation owned by the state, and the export results of high-tech

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products. On the CNBC.com page (2019), Indonesia is a country that is lagging behind other Southeast Asian countries because the government is still weak in planning and policies that can provide a boost for innovation to be more advanced. [The Global Innovation Index \(2019\)](#) explains that a country that can prioritize innovation in its planning and policies will significantly increase its ranking. If reviewed thoroughly, innovation activities become weak usually occur because people do not give a serious response to innovating innovative activities. [Dziallas and Blind \(2019\)](#) explain that a business actor's level of innovation capacity through a process and the process occurs from innovative and creative work behavior. Analysis of business actors in Indonesia cannot be separated from the current demographic conditions.

Globalization, which is increasingly impacting businesspeople, including small and medium businesses, has changed the business environment to be more competitive. Businesspeople must have more Market Orientation to generate new opportunities for superior and sustainable performance ([Buli. 2017](#)). Business actors continue to strive to maximize the results of the products they produce and minimize businesspeople's weaknesses to be able to compete with other business actors. Innovation actions, competitive strategies, and Market Orientation are solutions that can be used to face competition from other business actors ([Buli, 2017](#)).

[Kwak, Jaju, Puzakova, and Rocereto \(2013\)](#) state that Market Orientation is a business culture of an organization committed to continuing to be creative in creating superior value for customers. In other research, [Boso, Story, and Cadogan \(2013\)](#) Market Orientation is a level of the effectiveness of business activities that focus on understanding consumers' needs and desires and paying close attention to these business activities. The correlation between competitive advantage and Market Orientation will produce different situations and will accelerate market growth. When businesspeople do product marketing, they must be market-oriented because the market demand results will be more optimal. Business players must be market-oriented to maintain their business in an entrepreneurial environment with a high level of competition. This is supported by [Lee, Cass, and Cok's \(2019\)](#) 's research, which states that the changing entrepreneurial environment with a high level of competition is a challenge for business people who are market-oriented and need a competitive strategy. By entering the right Market Orientation, businesspeople can produce innovative products and can improve business performance. According to [Moecke and Hofer \(2015\)](#), consumers want innovative products. By carrying out Market Orientation, businesspeople can create innovative products following consumer desires. These innovative products are a business strategy to improve business performance in competition with other business actors. Market Orientation can reflect as an ability to understand consumer desires. Business actors who carry out Market Orientation have a competitive advantage in satisfying consumer needs. This advantage can be used by businesspeople to produce products following consumer wants and needs.

The key to success in surviving during intense business competition lies in businesspeople's ability to develop a product's advantages. [Moecke et al. \(2019\)](#) argue that a product's superiority is an essential factor that needs to be considered for businesspeople in the face of fierce

business competition. [Lee et al. \(2019\)](#) said businesspeople's success in monitoring their products' sales lies in innovative strategies or understanding by looking at Market Orientation and superior competitive advantages. Innovative development and Market Orientation are some of the components that can encourage the creation of competitive advantages. Market orientation and innovation can also be used as a factor in gaining an edge to compete with other business actors ([Kwak, 2013](#)). In general, consumers prefer innovative products according to their needs. Businesspeople use innovation, meaning that these business actors are one step ahead of other business actors.

Based on [Ashrafi and Ahad's research \(2018\)](#), there is an influence between Market Orientation on innovation so that innovation activities in market-oriented companies can increase innovation from; the research results of [Lake et al. \(2019\)](#) show that there is a positive effect of innovation on excellence in business competition. The higher the ability to innovate, the higher the advantage in business competition. Then, previous research conducted by [Bodlaj, Coenders, Zabkar \(2012\)](#) shows that innovation capacity is influenced by several factors, one of which is market orientation. This study involved 441 respondents at a company in a European country who stated a significant influence from innovation to market orientation on a competitive business environment. Companies can increase innovation in market orientation by meeting customer needs. However, other studies found different results expressed by [Bodlaj et al. \(2010\)](#). This study draws data from 325 different companies in Pennsylvania that are related to product innovation in a market orientation that states that there is no significant result and no support that impacts innovation, which then results in the conclusion that market orientation has no significant effect. Towards innovation. This research gap can be concluded from the above research in this study; other concepts need to be added to review the impact of market orientation on innovation. One of the concepts that can be used or can be studied is entrepreneurial orientation as mediation.

In addition to filling research gaps, researchers' studies are to make coffee shop business start-ups that have never been studied before by other research from the perspective of market orientation, entrepreneurial orientation, and innovation capacity in the same study. This research combines several previous studies that have examined the variables mentioned. Market orientation and innovation capacity ([Parkman, Holloway, & Sebastiao, 2012](#)), market orientation and entrepreneurial orientation ([Gruber-Muecke & Hofer, 2015; Kajalo & Lindblom, 2015](#)), entrepreneurial orientation and innovation capacity ([De & Fabio, 2018](#)) are the linkages that were initiated simultaneously in this study. In their research, [Parkman et al. \(2012\)](#) examine the creative industry, while [Gruber-Muecke and Hofer \(2015\)](#) involve export-import companies in Europe. In another study, [Kajalo and Lindlom \(2015\)](#) have explained the market orientation of small retail companies in Finland, while [De and Fabion \(2018\)](#) made research-based contributions to the small-scale food industry. However, in this study, the start-up business is run in the form of a coffee shop. Therefore, this research is packaged in examining its novelty involving new themed coffee shop start-ups that sell coffee products and promote service for the customer experience.

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Entrepreneurial orientation is a process that involves the creation of a strategy that represents policies to carry out practices that can be applied in the process of action and decisions to carry out entrepreneurial activities (Buli, 2017). A bold business step to take a risk is essential in maintaining a business venture (Kwak et al., 2013). Entrepreneurial orientation is a process in a business venture that is practiced in competing against other business competitors (Kwak et al., 2013). Musthofa (2017) shows that entrepreneurs have a positive and significant influence on innovation capacity. These results indicate that the innovation of a product can be created well when entrepreneurs carry out an entrepreneurial orientation well because entrepreneurs' knowledge and experience can be used as a reference for creating innovation in a product. With an entrepreneurial orientation, entrepreneurs can significantly increase the innovation capacity of a product. Entrepreneurs must be able to identify existing entrepreneurial orientation opportunities. In an entrepreneurial orientation, entrepreneurs can properly manage risks to increase product innovation.

In its application and implementation, innovation can be applied in various aspects of business and organization. In this case, innovation is also very open to being carried out in start-up companies. A start-up company, or known in Indonesian as a start-up company, is a term that refers to a company that has not been running or operating for a long time. These companies are mostly newly established and are developing and researching to find the right market (Rasmussen & Tanev, 2015). In their literature study, Garidis and Rossmann (2019) concluded that a start-up is an organization designed for a business model that can be replicated and enlarged. He continued, a company can be a start-up if it does not have a strong, extensive, and broad network in the market and still has limited resources to develop their business. Therefore, the start-up business is highly dependent on the strength of partnerships with investors and established partners (partners who found) who eventually become cooperative partners. According to Ireland (2015), a start-up business is generally not more than six years old. One of the start-up businesses that can be easily identified in Indonesia is the coffee shop start-up business. The coffee shop start-up business in Indonesia is increasing from year to year. This is evident from the increasing coffee shop business and Indonesia's rising coffee consumption (Detik, 2019). The research results show a significant increase in the coffee shop start-up business in Indonesia, which has tripled from year to year (Detik, 2019). A company providing business solutions in the form of goods and services in the HORECA industry (hotels, restaurants, and cafes) said in Indonesia, the number of starter coffee shops in August 2019 reached more than 2,950 coffee shops, which shows a significant increase compared to 2016 which only got around 1000 coffee shops (Detik, 2019). Indonesian people's coffee consumption has also increased. Annual data on coffee consumption in Indonesia 2019 published by the Global Agricultural Information Network shows the projection of domestic coffee consumption (Coffee Domestic Consumption) in 2019/2020 reaching 294,000 tons of coffee beans or an increase of around 13.9 percent compared to coffee consumption in 2018/2019, which reached 258,000 tonnes of coffee beans (Detik, 2019). The rise in coffee consumption and the coffee shop start-

up business occurred due to the high consumer demand for coffee.

### **LITERATURE REVIEW**

#### **Market Orientation**

According to Herman et al. (2018), market orientation is a company activity that is market-oriented to create satisfaction by meeting customer needs and desires and paying close attention to these business activities. Market orientation is defined as activities involving market intelligence processes relevant to company activities and effective knowledge distribution to produce appropriate assessments with market support (Ullah, Mirza, Kashif, & Abbas, 2019). Ra'ed Masa'deh, Al-Henzab, Tarhini, and Bader (2018) argue that market orientation is applying the marketing concept, where companies need to focus on meeting customer expectations and responding to customer needs. If a company with a market orientation will achieve a high level of customer satisfaction, keep existing customers loyal, attract new customers, to achieve the desired growth rate, market share, and profitability.

According to Ullah et al. (2019), an organization that has a fair market orientation has the following indicators:

1. Trying to get information about the market and customers (needs, wants, level of satisfaction with our products, etc.).
2. Willing to collect information about the competition in the market (pricing policies, product policies, targeted market segments, etc.).
3. Always collect information about all changes in the external environment (political, economic, social, technological, environmental, and legal).

#### **Innovation Capacity**

According to Fidel, Cervera, and Schlesinger (2015), innovation capacity can be defined as an organization's ability to adapt to new ideas, new processes, and new products. Concerning the business world, the innovation that a business has succeeded in achieving is the result of business people's thoughts, behind each work program, business people are actors who carry out the planning and concept-making process to implement and succeed or realize innovation. In short, this is what is said with innovation capacity.

In another view, if the innovation capacity owned by businesspeople is excellent, this can help the organization solve organizational problems so that each unit's work will be better. Besides, adequate innovation capacity will encourage the emergence of work methods that are much more effective and efficient in doing business and organization (Zhao & Li, 2018). When viewed from the perspective of individuals in the organization, innovation capacity can be seen as its ability to produce new products or processes that are valuable and beneficial to the company (Gil, 2018).

A person's ability to innovate depends on his ability to generate new creative ideas and use them effectively for the organization's long-term benefit. Besides, individual and organizational innovation capacity is supported by the capacity for creativity (Fidel, 2015). In another view, Nyuur, Brecic, and Debrah (2018) state that one of the most important things about running a business is having the ability to innovate. Companies will not survive long if businesspeople do not have an excellent ability to innovate. This is due to the changing needs, wants, and demands of customers. Customers will be bored if they consume the same product shortly, customers will

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certainly look for other products that can satisfy their needs. Individual innovation ability refers to a person's ability to transform knowledge and ideas into new processes or systems continuously. All individuals who fall into the innovative category will continue to adopt things and ideas that are considered unique. Being an innovative businessperson must adjust and consider aspects of the individual's ability to innovate. The greater the businesspeople's ability to succeed and continue to develop the ability to innovate in their business, the greater the benefits that will be obtained from the company.

According to [Gil \(2018\)](#), innovation capacity has the following indicators:

1. Have a formal procedure for realizing and evaluating business projects

In this indicator, the proper system is the company's standard procedure in assessing, implementing, and evaluating business projects.

2. Have a formal process for evaluating business innovation

Apart from procedures, formal processes are an indication that shows the innovative capacity of an organization to conduct business evaluations

3. Doing innovative business projects regularly

An organization that has innovation capacity is characterized by innovative business projects that are carried out regularly or periodically to achieve the organization's goals.

### **Entrepreneurial Orientation**

According to [Ra'ed Masa'deh, et al. \(2018\)](#), entrepreneurial orientation is defined as something that leads to processes, practices, and activities in making decisions used to increase the value of products and services to answer customer needs. Besides, entrepreneurial orientation can be a company orientation in identifying and executing existing opportunities as one of the main principles in running its business. [Héctor \(2017\)](#) also added that entrepreneurial orientation is always used to describe situations in organizations related to the objectives and matters carried out (missions) of businesspeople in carrying out their business.

[Eijdenberg \(2016\)](#) also explains that entrepreneurial orientation can refer to a company's strategic orientation, capturing certain aspects of entrepreneurship in decision-making styles, methods, and practices. Entrepreneurial orientation is used as a measurement of the entrepreneurial behavior of an organization. [Hooi, Ahmad, Amran, and Rahman \(2016\)](#) added that entrepreneurial orientation refers to a company's behavior pattern in building its business focus in the market as a strategic orientation for an organization to adapt to the business's changes environment and outperform its competitors.

According to [Ra'ed Masa'deh et al. \(2018\)](#), entrepreneurial orientation has the following indicators:

1. Be open to new business ideas all the time

2. Viewing renewal and innovation as essential things in the organization

3. Has succeeded in developing new products or product variants shortly

4. Focusing on investment in new products, services, and business practices

5. Focus on being at the forefront of business actions before competitors do

6. Focusing on being at the forefront of business sector development (being the market leader)

7. Have vigilance in doing things that can cause missed opportunities

8. See the need for courage collectively to achieve company or organizational goals

9. Have the courage to take risks in uncertain situations

### **The relationship between Market Orientation and Innovation Capacity**

Market orientation implements something new or different regarding market conditions and can be considered innovative behavior. This explains that market orientation is a source of ideas for new services and products to positively affect the level of innovation within the company ([Mahmoud et al. 2016](#)). In a research conducted in Pakistan that involved 343 respondents in a questionnaire survey, [Ullah et al. \(2019\)](#) explained that market orientation has a significant effect on workers' innovation capacity in the telecommunications sector. [De and Fabio \(2018\)](#), in their study of small and medium enterprises in the food industry in Italy, emphasized that the market orientation of each business entity is fundamental in determining the level of the business entity's innovation capacity. Based on the description above, the following hypotheses can be drawn:

### **H1: Market Orientation has a significant effect on Innovation Capacity**

### **Relationship between Market Orientation and Entrepreneurial Orientation**

In his research, [Eijdenberg \(2016\)](#) revealed that market orientation has a positive but insignificant effect on entrepreneurial orientation in the informal economy sector. The research was conducted with a quantitative approach using the questionnaire questions to traditional business practitioners in Tanzania. According to [Gruber-Muecke and Hofer \(2015\)](#), the market orientation of business actors in Austria who export to Central and Eastern Europe positively influences entrepreneurial orientation, which is an essential factor that enables organizations to understand the market develop product and service strategies to meet their needs. Customers and market needs. A study conducted on 202 small class retailers in Finland resulted in the conclusion that a market orientation is a target or market segment targeted by producers; of course, has several characteristics or characteristics desired by targeted market class consumers related to consumer tastes, product desires, product packaging, sales strategy, brand position to be recognized by the intended consumers, the success process of reaching the target market through products sold will enhance the innovation process by producers to achieve the success of products that are sought after by consumers. Companies with strong market orientation and entrepreneurial orientation will generate profitability [Kajalo and Lindblom \(2015\)](#).

### **H2: Market Orientation has a significant effect on Entrepreneurial Orientation**

### **The relationship between Entrepreneurial Orientation and Innovation Capacity**

According to the conclusions of a temporary study conducted by [De and Fabio \(2018\)](#), an entrepreneur has innovative ideas, can see opportunities in the market, and turn their dreams into reality. Therefore, it can be said that entrepreneurialism has a positive association with innovation capacity. ([De & Fabio, 2018](#)). In another view, [Chen \(2016\)](#) describes that an entrepreneurial orientation can increase innovation's ability more than an



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entrepreneurial orientation is risk-taking, which is very important for product innovation. According to (Awwad & Ali, 2012), entrepreneurial orientation has a positive and significant relationship to innovation capacity because companies engaged in the creative industry compete in the ability to foster innovation and commercialize the results of their innovative capabilities.

**H3: Entrepreneurial Orientation has a significant effect on Innovation Capacity**

**The relationship between Market Orientation and Innovation Capacity through Entrepreneurial Orientation**

The researchers' study is to make coffee shop business start-ups in Indonesia that have never been studied before by other research for market orientation, entrepreneurial orientation, and innovation capacity in the same study. This study combines several previous studies that have examined the variables mentioned. Market orientation and innovation capacity (Parkman, Holloway, & Sebastiao, 2012), market orientation and entrepreneurial orientation (Gruber-Muecke & Hofer, 2015; Kajalo & Lindblom, 2015), entrepreneurial orientation and innovation capacity (De & Fabio, 2018) are the linkages that were initiated simultaneously in this study. Based on the three relationships between the concepts above, conclusions can be drawn as below.

**H4: Market orientation has a significant effect on innovation capacity through entrepreneurial orientation**

## RESEARCH METHOD

The type of research used in this research is explanatory causal quantitative, where quantitative research uses data in the form of numbers or numerical scales. Explanatory causal is a study that explains the relationship between variables in causation (Sekaran and Bougie, 2014, p. 44). The population used in this research is coffee shop start-up business players in Indonesia. Guidelines for sample measurement based on Ferdinand (2014):

1. 100 - 200 samples for the Maximum Likelihood Estimation technique.
2. Depends on the number of parameters estimated. The guideline is 5-10 times the number of parameters estimated.

Based on the requirements for the number of samples described, this study will use 15 indicators or measurement parameters to obtain  $15 \times 7 = 105$  samples. It can be concluded that the study will use a sample size of at least 105 coffee shop start-up businesses in Indonesia.

The researcher chose purposive sampling, where the researcher chose based on which population, he considered the most suitable with the researcher's aims and objectives (Sekaran and Bougie, 2014, p. 248). Researchers use this research technique because it is less time consuming and more efficient.

The sample criteria in this study are as follows:

1. Founder or co-founder of a contemporary (modern) coffee shop
2. A coffee shop business that is not older than six years (Ireland, 2015)
3. The coffee shop business is not vacant or is still actively running its business

4. Coffee shop businesses that are still working with investors and/or established partners (established companies) are not a subsidiary of other companies. (Garadis & Rossman, 2019).

Operationally, market orientation can be measured by indicators formulated previously by Ullah et al. (2019), measurement of innovation capacity adapted from Gil (2018), and market orientation indicators concluded by Ra'ed Masa'deh et al. (2018).

Processing and data analysis used in this research is the Partial Least Square (PLS) method with SmartPLS software, which involves the validity test, reliability test, coefficient of determination, descriptive analysis, and hypothesis testing.

## RESULTS

### Descriptive Analysis

The highest average result is the Market Orientation variable on the indicator "Information on Environmental Change" with an average of 4.164. The mean value for the whole market orientation variable is 4.125, including the high assessment category. This shows that coffee shop business actors have a high level of collecting information on changes in the external environment and argue that environmental change information indicators are the most crucial thing in using Market Orientation in businesspeople's scope.

The Entrepreneurial Orientation variable's highest average yield is on the indicator "Product Development Investment" with an average of 4.518. The mean value for the whole of the Entrepreneurial Orientation variable is 4.322, including the high assessment category. This shows that coffee shop start-ups focus on investing in product and service development to be able to increase the value of products and services that have been produced and can answer the needs requested by customers and argue that product development investment indicators are the most crucial thing in using Entrepreneurial Orientation in the scope of business people.

The highest average result of the Innovation Capacity variable is the "Business Innovation Evaluation" indicator, with an average of 4,245. The mean value for the whole of the Entrepreneurial Orientation variable is 4.078, including the high assessment category. This shows that the coffee shop business actor has a standard process in evaluating a business innovation that has been completed and believes that the Business Innovation Evaluation indicator is the most essential thing in using Innovation Capacity within the scope of business people.

**Table 2.** Reliability Test

Variable	Composite Reliability	Cronbach Alpha	AVE
Market Orientation	0,808	0,667	0,583
Entrepreneurial Orientation	0,891	0,859	0,500
Innovation Capacity	0,837	0,723	0,504

Table 2 shows that all variables have a value of Composite Reliability and Cronbach's Alpha, which has a value of more than 0.6 so that from these results, it can be concluded that each variable in this study meets the requirements. Besides, this variable can be said to be

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reliable. The AVE value is also used in testing reliability to measure the reliability of the variance of a construct component compiled through its indicator with an adjusted error rate. The minimum AVE value that has been set is 0.5. Still, if there is an AVE value of 0.4 with Composite Reliability, more than 0.6 and Convergent Validity meets the requirements, the variable can be accepted (Hair et al., 2014, p.290).

## Evaluate the Outer Model

The outer Model is a method of measuring the validity and reliability of a model used in research. In this section, if there are declared invalid indicators, then these indicators must be excluded from the research.

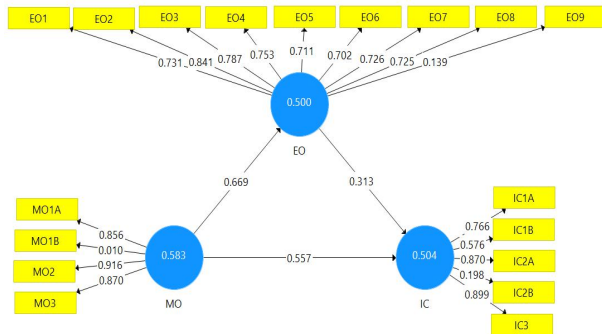


Figure 1. Outer Model

Based on figure 1, all indicators are valid except for the EO9, IC1B, IC2B, and MO1B indicators, which are said to be invalid because they cannot measure their latent variables. All indicators are declared valid because they have an outer loading value of  $> 0.5$ . In the reliability, the test aims to measure respondents' consistency in answering the questionnaire in this study. The composite reliability and cronch's alpha method were used to test reliability. This study's composite reliability value is at least 0.6, and all variables have met the reliability test requirements.

## Inner Model Evaluation

This section will test the inner model's effect by looking at the determinant's coefficient value (R-square). If the higher the R-square value indicates, the better the predictive model of the research model used (Hair et al., 2014).

Table 3. R Square values

Variable	R <sup>2</sup>
Entrepreneurial Orientation	0,447
Innovation Capacity	0,642

Based on table 3, it can be seen that the Innovation Capacity variable can be explained by the Market Orientation, Entrepreneurial Orientation variable with a value of 64.2%, where the other 35.8% are influenced by other variables outside of this study. Entrepreneurial Orientation can be explained by the Market Orientation variable with a value of 44.7%, where the other 55.3% are influenced by other variables outside of this study.

## Hypotheses Testing

At this stage, the value of T-statistics can be used as a standard for testing the path coefficient on condition that the resulting T-statistics value is greater than 1.96 so that it can be said to have a significant effect, likewise if there

is a T-statistics value of less than 1.96 it can be said that it does not have a significant effect.

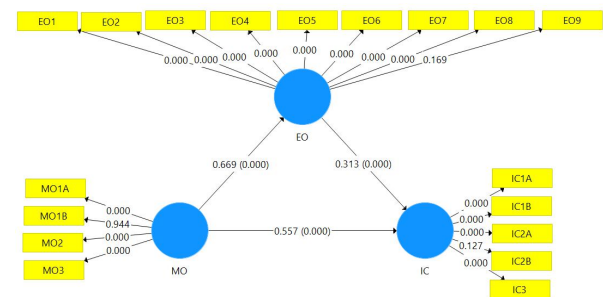


Figure 2. Inner Model

Table 4 shows the results that the coefficient significance test shows the following results:

1. The Market Orientation (MO) variable appears to influence Innovation Capacity (IC) because it has a statistical t value of 8.131 or more than 1.96. This shows that the hypothesis H1 is accepted or has a significant effect.
2. The Market Orientation (MO) variable appears to influence Entrepreneurial Orientation (EO) because it has an at-statistic value of 12.093 or more than 1.96. This shows that the H2 hypothesis is accepted has a significant effect.
3. The Entrepreneurial Orientation (EO) variable appears to influence Innovation Capacity (IC) because it has a t-statistic value of 3,815 or more than 1.96. This shows that H3 is accepted or has a significant effect.

Table 4. Path Analysis Test

Effect	Path Coefficient	T-statistics	P-value	Remarks
MO → IC	0,313	8,131	0,000	Significant
MO → EO	0,669	12,093	0,000	Significant
EO → IC	0,557	3,815	0,000	Significant

Based on table 5, it can be seen that the Market Orientation variable appears to influence Innovation Capacity through Entrepreneurial Organization because it has a t-statistic value of 3,410 or more than 1.96. This shows that the hypothesis H4 is accepted or has a significant effect.

Table 5. Indirect Effect Test

Effect	t statistic	P-value	Remarks
MO → EO → IC	3,410	0,001	Significant

## DISCUSSIONS

### The Effect of Market Orientation on Innovation Capacity

From the results of this study, the Market Orientation variable can have a positive influence on Innovation Capacity in coffee shop start-up businesses in Indonesia. Based on table 4.11, the market orientation variable influences 31.3% on the innovation capacity variable.

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This research is following the results of previous studies (Mahmoud et al. 2016). So, it can be concluded that Market Orientation affects product innovation and ideas for services produced by innovative and creative businesspeople. Market Orientation provides the implementation of something new or different by taking into account market conditions. This is following Ullah et al. (2019)'s research, who said market orientation has a significant influence on innovation capacity. So, it can be concluded that this research is following De and Fabio's (2018) research, which states that market orientation is important in determining the level of innovation capacity for coffee shop start-up business players in Indonesia.

### The Effect of Market Orientation on Entrepreneurial Orientation

From the results of this study, it is known that the Market Orientation variable has a positive influence on Entrepreneurial Orientation on products or services produced by coffee shop start-up businesses in Indonesia. Based on table 4.11, the market orientation variable influences 66.9% on the entrepreneurial orientation variable. So it can be concluded that a market orientation towards a product or service can influence the entrepreneurial orientation to understand the market and develop a product or service strategy to meet customer needs and market needs according to the research of Gruber-Muecke and Hofer (2015). This is a target or market segment aimed by producers to have several characteristics desired by market class consumers who are targeted with consumer tastes, product desires, product packaging, product strategies, sales strategies, and brand position to be recognized by the intended consumers. The success process of reaching the target market through the products being sold will enhance the innovation process by producers to achieve the success of products of interest to consumers. This study's results are in accordance with the results of research by Kajalo and Lindblom (2015), which states that there is an influence between Market Orientation and Entrepreneurial Orientation.

### The Effect of Entrepreneurial Orientation on Innovation Capacity

From the results of this study, it is known that the Entrepreneurial Orientation variable has a positive influence on Innovation Capacity because business people are someone who has innovative ideas and can see opportunities in the market and turn their dreams into reality, it can be said that entrepreneurial orientation has a positive relationship with innovation capacity. According to research by De and Fabio (2018). Based on table 4.11, the entrepreneurial orientation variable influences 55.7% on the innovation capacity variable. So, it can be concluded that entrepreneurial orientation increases innovation capacity because entrepreneurial orientation plays a role in risk-taking, which is essential for product innovation (Chen, 2016). Entrepreneurial orientation has a positive and significant impact on innovation capacity because business players compete in their ability to innovate and commercialize the results of their innovative skills (Awwad & Ali, 2012) so that there is a strong relationship between a business actor and innovation that will be commercialized in the intended market share.

The Influence of Market Orientation on Innovation Capacity through Entrepreneurial Orientation

The indirect effect test results in table 4.12 show that there is a significant effect of 20.9% of the market

orientation variable on innovation capacity through entrepreneurial orientation. This is following the results of previous research, which states that market orientation has a significant effect on innovation capacity (Parkman, Holloway, & Sebastiao, 2012); market orientation has a significant effect on innovation capacity (Gruber-Muecke & Hofer, 2015; Kajalo & Lindblom, 2015), and entrepreneurial orientation has a significant effect on innovation capacity (De & Fabio, 2018).

### CONCLUSIONS

Coffee shop start-up business actors to periodically research buying interest and customer tastes for the coffee shop start-up business's progress. It can innovate their products and their servants regularly, then further update standard procedures in evaluating a business project so that their business can continue to Keep up with the times to continue to compete with competitors. If they want to increase their innovation capacity, coffee shop business players are recommended not only to implement a market orientation but also to implement an entrepreneurial orientation simultaneously.

Future studies may use a larger sample size and a stratified sampling method for more consistent results across population areas.

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